



Market and Trade Data

South Korea, Already a Major Market, Offers Further Opportunities for U.S. Agriculture

By Seh Won Kim

South Korea is the world's 10th largest economy, 12th largest exporter, and 13th largest importing country for all products. The demands of South Korean consumers have become very similar to the demands of U.S. consumers: high quality, low cost, healthy, and convenient foods. Increasing affluence, more women in the workforce, and a well-traveled younger generation looking for goods with an international flavor are promoting the rise of convenience stores, retail outlets, and Western-style family restaurants.

In 2005, South Korea was the fifth largest market for U.S. agricultural products. Its total agricultural imports reached \$15.4 billion. South Korea imports about 60-70 percent of its agricultural needs because less than 20 percent of its total land is arable and its farms are small and inefficient.

In February 2006, South Korea and the United States announced their intentions to negotiate a bilateral FTA (free trade agreement), an effort expected to give new impetus to U.S. agricultural trade. South Korea has the economic potential to greatly expand purchases of U.S. farm and food products. By enhancing market access and eliminating remaining trade barriers, the FTA could significantly increase U.S. exports to this market.

Traditionally, South Korea has imported large amounts of bulk and intermediate products, such as cotton and hides. The market for these types of products is fairly flat as industries such as tanning and textiles increasingly shift their processing facilities to China. South Korea's total imports of bulk and intermediate products declined by 2.4 percent in 2005, whereas imports of consumer-ready products rose by 20 percent.

South Korea's total imports of U.S. agricultural products were \$2.9 billion in 2005, down from the previous year due to declines in corn and soybean sales and sanitary and phytosanitary concerns about beef and citrus. However, imports of U.S. poultry, pork, pastries, mineral water, dairy products, fresh fruits, and nuts are all showing significant growth.

South Korea's GDP (gross domestic product) growth for 2005 was 4 percent. Its economy, which grew 4.6 percent in 2004, is slowing under the weakening pace of export growth and the rising value of the won. The overall economic performance will depend

greatly on external conditions, including international oil prices and appreciation of the won.

Start With Seoul

South Korea has 48 million people, making it the third most densely populated country in the world. Seoul, the nation's capital, has grown into a global metropolis. Currently 23 million people live in Seoul, Incheon, and Kyunggi Province, about 48 percent of the total population. The metropolitan area around Seoul houses about 84 percent of government agencies and institutes, 88 percent of 30 largest companies, and 65 percent of the 20 most popular universities in the nation.

This concentration in Seoul, along with its efficient distribution system, allows U.S. suppliers to realize benefits from their promotional efforts very quickly. Less conventional marketing approaches such as online selling, home shopping channels, and home delivery of groceries also work well in Seoul.

Essential Groundwork

An exporter considering the South Korean market should conduct preliminary research. ATO Seoul (the FAS Agricultural Trade Office in Seoul) provides market intelligence to help U.S. suppliers and exporters get started. Information from South Korean importers and U.S. state departments of agriculture also could be helpful. The next step might include sending catalogues, brochures, product samples, and price lists to prospective importers to introduce them to a company and its products.

Once contact with an importer is established, a prospective supplier should

Business Customs: Etiquette Matters

South Korea is a country of tradition. While its importers understand international business, observing the cultural nuances will facilitate business relationships. Here are some tips U.S. suppliers should keep in mind when dealing with South Korean business people.

Obtaining Information: To get information from a South Korean importer, it is best to ask directly and explain why you need it. South Koreans may require more explanation before responding to information requests than U.S. business people are used to providing; for instance, a lengthy discussion about the selling firm and its history may be required. If you do not receive a successful reply, there is nothing wrong with politely asking again. In South Korea, it is often seen as a sign of seriousness to continue presenting your request. South Koreans will rarely say "no" directly; instead they will say something is "very difficult."

Initial Communications: South Koreans prefer to deal face-to-face. Establishing a relationship through cold calling (or cold faxing or e-mailing) is very difficult in South Korea. When first corresponding, start with words of appreciation, clearly mark the recipient's name, title, and division (many South Koreans have the same last name), avoid using long, complex sentences and slang, indicate a reasonable timeframe for a response, and close with additional words of appreciation.

Relationships: As indicated above, personal relationships are very important. South Koreans like to maintain long-term relationships and are often very loyal. Developing a relationship with a potential partner is vital to establishing your credibility. If a seller has already entered this market, established contacts can help to build trust with a new one.

Introductions: It is very helpful to have a formal introduction to the person or company with whom the seller wants to do business. Meeting the right person in a South Korean company almost always depends on having the right introduction.

Name Cards and Addresses: The exchange of name cards is usually the first item of business. In South Korea people seldom call others by their first names. Instead, they use surnames (such as Mr. Hong) or title and surname (President Hong). Never call a person by his or her first name unless he or she specifically asks you to do so. Surnames are often written first on a South Korean business card: for example, Hong, Gil Dong would be referred to as Mr. Hong. For Westerners, it is difficult to tell from the given name whether the contact is a man or a woman.

Meetings: Small talk is a good way to break the ice at the beginning of a meeting. A short, orderly meeting with an agenda provided in advance will go a long way toward making it a success. The meeting will likely be with a senior staff member whose English may not be very good. At times, a junior staff member might translate, but be prepared to provide all materials and fulfill all requests in writing. When making initial visits, hiring a translator can be a valuable investment. Take time to educate the translator beforehand with terms likely to come up. Pay attention to the seating arrangement; the senior staff member will usually sit at the head of the table. Decisions are typically made from the top down in South Korea.

Evening Gatherings: The office may not be the best place to discuss business matters or propose new ideas, especially when dealing with the older generation. It is helpful to get together in the evening for a less formal, but no less important, meeting. South Korean business people often gather with friends after work over drinks. Many hierarchical traditions may slacken on such occasions: the rules and mores of society heavily influence South Koreans' behavior, and meeting over drinks is one of the few times they can be themselves.

Dress Code: It is advisable to wear formal business attire when meeting or visiting South Korean importers for the first time. First impressions are important.

Conflict Resolution: South Koreans do not like to appear to have "lost face." It is important always to try to give something, to make a concession, even if you think you are in the right: it will help to resolve the conflict more quickly. Visible anger is not useful in a confrontation: silence is a more effective method of conveying displeasure. Apologizing can also be useful and does not always mean you believe you were wrong.

Special Note: One idiosyncrasy of the Korean language is that speakers say "yes" when they may mean "no," and vice versa. For instance, in Korean, "Wouldn't you like to go home?" if answered with a "yes" means "That's right, I would not like to go home." To avoid confusion, reply with a full sentence, e.g., "Yes, I would like to go home."

meet the importer in person to increase the company's credibility with the importer and to evaluate the market firsthand. In South Korea, the clichés about "seeing is believing" and "one visit is worth a 1,000 faxes" are especially true. There is no substitute for face-to-face meetings. The supplier or exporter should bring

samples, product and company brochures, price lists, shipping dates, available quantities, and any other information needed to negotiate a contract. While information in English is acceptable, having

it in Korean is helpful. A general overview of your firm in the Korean language is a good place to start.

Participating in a local food show is another way to showcase your products to a larger audience. Many South Korean importers attend these shows to establish reliable long-term relationships. Show participation enhances initial contacts with importers, agents, wholesalers, distributors, retailers, and others in the food and beverage industry. Food & Hotel South Korea, the only USDA-sponsored and only trade-only food show in the country, presents an excellent way to explore possible market opportunities. This show targets importers, wholesalers, distributors, retailers, hotels, restaurants, food processors, and media. In the past, there have been two food shows in South Korea, a domestic and an international show; but starting next year the two shows will be merged into the Seoul Food & Hotel Show. The first show, which will be held April 24-27, 2007, is expected to attract two to three times the number of exhibitors as either of the shows in 2006.

U.S. companies should be sensitive to the uniqueness of the South Korean market: an approach or product that succeeded in another market will not necessarily work in South Korea. It will be necessary to renew the product design, packaging, and market approach for the South Korean situation, requirements, and tastes. A well-developed relationship with a South Korean importer is an asset when determining how best to market a product.

Never take anything for granted in the South Korean market. Be ready for the unexpected. Just because the first container cleared customs does not mean the second one will. Be attentive, patient, and willing to provide new information.

Consumer Tastes and Dining Preferences

South Korean consumers' eating habits have changed dramatically in recent years. A diet long been based on rice has become progressively more centered on wheat and protein. Consumers are also seeking more diversity and are becoming more quality-oriented. Consumption of fish, fruits, and vegetables has increased.

Consumer preferences are shifting toward foods that are convenient rather than those that require lengthy preparation. Home preparation is becoming increasingly rare. Monthly expenditures on food and beverages per household in cities averaged \$519 in 2004, 23 percent of a household's total expenditures. The eating-out portion of expenditures, which has been rising very fast, accounted for 46.6 percent of the total.

Working members of a household often have business dinners five nights a week, which is one reason that restaurant consumption has continued to grow despite South Korea's generally lackluster economic situation. Busy consumers can purchase ready-made, local-style food items such as kimchi or bulgogi (barbecue) at grocery or convenience stores.

Consumers prefer products that have a national brand and/or have long been recognized in the market. Nevertheless, the younger generation has had a lot of exposure to Western-style foods, especially U.S. products. Approximately 40,000 South Korean elementary and middle school students study in the United States every year and are somewhat accustomed to U.S. brands and tastes.

Consumers are becoming more health- and safety-conscious in their food buying habits; ingredients, packaging, and shelf life are

becoming important determinants of purchasing behavior. Demand for greater quality in flavor and nutrition has increased. Spending habits are also becoming more diversified as individual preferences and foods become more varied.

South Korean consumers also like natural, fresh food products, such as health, functional, and diet foods. The organic market has been developing rapidly. South Koreans have always looked to their food to provide a functional or health benefit, and foods produced without the use of pesticides or insecticides appeal to them. South Korean consumers are very sensitive to food safety issues. Once a food scare gains publicity, the food concerned is affected, and its reputation can be quickly damaged.

Retail Food Sector

In 2004, sales growth of the South Korea's overall retail market slowed due to the sluggish economy and shrinking sales of traditional retailers. But in 2005, department store sales are expected to have grown slightly, and hypermarket sales to have enjoyed double-digit growth.

Online retailing is growing rapidly. More people are shopping online for convenience and better assortment. Most leading mass retailers now operate Internet stores and offer home delivery to stay competitive. In 2004, total sales of food and agricultural products accounted for about 9 percent of total online shopping sales, about \$656 million.

Most retailers purchase imported food products from importers and/or wholesalers; few retailers import directly. This situation is not expected to change in the near future. U.S. exporters should contact distributors, importers, and retailers to market their products.

South Korea's customs clearance process is cumbersome and costly; it is generally not cost-effective to bringing in mixed container loads. Instead, distributors bring in full containers of a particular product, and either store it in-country or distribute it to retailers or other distributors.

HRI Sector

South Korea's HRI (hotel, restaurant, and institutional) sector garnered \$41.2 billion in sales in 2003, up 9 percent from the previous year. The total number of restaurants rose 2 percent to 605,614. However, 90 percent of restaurants are small family-owned businesses.

Hotels: The hotel segment, especially 5- and 4-star hotels with in-house, premium

e-Sources

Several electronic resources exist that can help U.S. suppliers prepare for and keep up with the South Korean market.

For further information about South Korea's agricultural market, including lists of South Korean importers by product:

U.S. Agricultural Trade Office

E-mail: atoseoul@usda.gov

Web site: <http://www.atoseoul.com>

Office of Agricultural Affairs

E-mail: agseoul@usda.gov

Food standards and regulations in South Korea are many, and subject to frequent change. U.S. exporters need to ensure that all necessary customs clearance requirements have been verified with local authorities through the South Korean importer before the sale conditions are finalized. Final import approval of any product is always subject to the standards and regulations as interpreted by the South Korean official at the time of product entry.

South Korean import regulations and specific labeling requirements: FAS Report KS5037

Details on South Korea's HRI sector: FAS Report KS5009

Details on South Korea's retail sector: FAS Report KS4009

U.S. livestock and poultry products eligible for export to South Korea:

USDA's Food Safety Inspection Service

Web site: <http://www.fsis.usda.gov/home/index.asp>

U.S.-South Korean FTA:

Web site: <http://www.fas.usda.gov/itp/us-koreafta.asp>

Sanitary and phytosanitary requirements:

USDA's Animal and Plant Health Inspection Service

Web site: <http://www.aphis.usda.gov>

Distributor development service:

MIATCO (the Mid-America International Agri-Trade Council) offers this service to assist U.S. suppliers with specific information on whether and how to approach the South Korean market. MIATCO also can help U.S. food companies establish and solidify contacts in the South Korean import, distribution, retail, food service, and food processing sectors through trade servicing and in-market assistance.

Web site: <http://www.miatco.org>

One-stop technical assistance in entering the South Korean market:

Oregon Department of Agriculture's Export Service Center

E-mail: esc-food@oda.state.or.us

restaurants, constitutes an important market for foods and beverages. Food and beverage sales comprise 40-50 percent of total sales in such hotels. Some leading chains, including the Shilla and the Westin Chosun, have greatly expanded their food service businesses and currently operate stand-alone outlets of various formats outside their hotels, including microbrew pubs, food courts, coffee shops, bakery shops, and gourmet restaurants.

The hotel segment has played a leading role for new-to-market food products and recipes. It has also served as an efficient venue for promotional activities, including menu promotions and product launchings and seminars. Although the hotel segment's role in the food service sector is gradually declining due to growth of

other types of restaurants, it will likely remain the leading distribution channel for premium, high-quality imported food and beverage items in the near future.

Restaurants: Traditional South Korean food restaurants are still the most numerous, although their number is declining due to the rapid growth of restaurants serving other cuisines. However, it is becoming more difficult to distinguish South Korean menus from foreign ones, as more diverse recipes and food styles are introduced, fusing traditional dishes with new-to-market recipes and ingredients. At the same time, foreign dishes are somewhat "South Koreanized" in taste, ingredients, and cooking style. For example, South Koreans prefer less salt, fat, and oil, and more hot spices, vegetables, seafood, and soups.

Institutional: Institutional food service outlets are growing, as more workers and students, seeking cheaper meal options, switch to in-house restaurants for their lunches and dinners. Sales for 2004 totaled \$4.4 billion, about 50 percent of it taken by third-party commercial institutional food service providers, and the rest by restaurants directly operated by offices and schools. Commercial institutional food service providers are expected increase their market share in coming years, as more organizations seek cheaper, more efficient ways to provide quality meals for employees and students.

Promising Food Processing Sector

South Korea's shifts toward foods that offer greater quality, variety, convenience, safety, and health benefits have also

stimulated the growth of the domestic manufacturing and processing industry. Total production of foods, foodstuffs, and beverages was estimated at \$43.8 billion in 2003.

U.S. suppliers have a strong opportunity to export raw materials and ingredients for food processing in South Korea. The country's food and beverage manufacturing and processing industry is a major user of imported raw materials, intermediate products, ingredients, and additives. Imports are necessary because domestic production cannot meet demand. Except for rice and certain dairy products, South Korea imports almost all types of agricultural products for processing. Corn, soybeans, wheat, essential oils, frozen concentrated orange juice, turkey meat, duck meat, almonds, walnuts, powdered milk, whey powder, and beef tallow are good examples of raw materials and ingredients that South Korea imports for food processing. ■

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